

**REPORT OF THE AUDIT OF THE
MERCER COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
April 26, 2008 Through April 24, 2009**



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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MERCER COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
April 26, 2008 Through April 24, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Mercer County Sheriff for the period April 26, 2008 through April 24, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$11,009,641 for the districts for 2008 taxes, retaining commissions of \$356,962 to operate the Sheriff's office. The Sheriff distributed taxes of \$10,622,441 to the districts for 2008 taxes. Taxes of \$17,909 are due to the districts from the Sheriff.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Milward Dedman, Mercer County Judge/Executive

Honorable Chris Kehrt, Mercer County Sheriff

Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the Mercer County Sheriff's Settlement - 2008 Taxes for the period April 26, 2008 through April 24, 2009. This tax settlement is the responsibility of the Mercer County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Mercer County Sheriff's taxes charged, credited, and paid for the period April 26, 2008 through April 24, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2009, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Milward Dedman, Mercer County Judge/Executive
Honorable Chris Kehrt, Mercer County Sheriff
Members of the Mercer County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

September 14, 2009

MERCER COUNTY
CHRIS KEHRT, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period April 26, 2008 Through April 24, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 889,126	\$ 2,114,060	\$ 5,067,826	\$ 1,355,916
Tangible Personal Property	61,262	176,260	308,654	440,712
Increases Through Exonerations	398	1,059	2,334	607
Omitted Taxes	118	300		189
Franchise Taxes	97,689	293,883	471,455	
Additional Billings	549	1,404	3,544	967
Limestone, Sand and Mineral Reserves	72	192	491	109
Bank Franchises	69,298			
Penalties	6,168	14,982	33,647	9,486
Adjusted to Sheriff's Receipt	740	1,651	1	(96)
Gross Chargeable to Sheriff	✓ 1,125,420	✓ 2,603,791	✓ 5,887,952	✓ 1,807,890
<u>Credits</u>				
Exonerations	3,636	9,012	22,156	6,119
Discounts	15,894	34,915	82,388	28,524
Delinquents:				
Real Estate	19,994	45,852	113,075	30,491
Tangible Personal Property	294	1,002	1,573	487
Total Credits	✓ 39,818	✓ 90,781	✓ 219,192	✓ 65,621
Taxes Collected	✓ 1,085,602	✓ 2,513,010	✓ 5,668,760	✓ 1,742,269
Less: Commissions *	46,426	91,649	144,553	74,334
Taxes Due	✓ 1,039,176	✓ 2,421,361	✓ 5,524,207	✓ 1,667,935
Taxes Paid	1,035,957	2,413,879	5,509,564	1,663,041
Refunds (Current and Prior Year)	1,098	2,748	6,860	1,623
**				
Due Districts				
as of Completion of Audit	\$ 2,121	\$ 4,734	\$ 7,783	\$ 3,271

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
 CHRIS KEHRT, SHERIFF
 SHERIFF'S SETTLEMENT - 2008 TAXES
 For The Period April 26, 2008 Through April 24, 2009
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	4,864,620
2.55% on	\$	5,668,760
1% on	\$	466,261

** Special Taxing Districts:

Library District	\$	2,056
Health District		1,053
Extension District		704
Soil District		185
Fire District		<u>736</u>
Due Districts	\$	<u><u>4,734</u></u>

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT

April 24, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Mercer County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MERCER COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 24, 2009
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Mercer County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 24, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 2, 2008 through April 24, 2009.

Note 4. Interest Income

The Mercer County Sheriff earned \$3,316 as interest income on 2008 taxes. The Sheriff distributed \$1,465 to the school district, but as of September 14, 2009, owed an additional \$216 to the school district. The remaining interest was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Mercer County Sheriff collected \$55,909 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of September 14, 2009, the Sheriff owed an additional \$543 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Mercer County Sheriff collected \$835 of advertising costs and \$3,930 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of September 14, 2009, the Sheriff owed \$835 in advertising costs to the county and \$3,930 in advertising fees to his fee account.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in interest-bearing accounts. The Sheriff's escrowed amounts were as follows:

2006	\$711
2007	\$682

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned, and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Milward Dedman, Mercer County Judge/Executive
Honorable Chris Kehrt, Mercer County Sheriff
Members of the Mercer County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Mercer County Sheriff's Settlement - 2008 Taxes for the period April 26, 2008 through April 24, 2009, and have issued our report thereon dated September 14, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mercer County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Mercer County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mercer County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Mercer County Sheriff's Settlement - 2008 Taxes for the period April 26, 2008 through April 24, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Mercer County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mercer County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 14, 2009

COMMENT AND RECOMMENDATION

MERCER COUNTY
CHRIS KEHRT, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 26, 2008 Through April 24, 2009

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Segregation of duties over receipts and disbursements is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and/or misappropriation of assets.

A lack of segregation of duties exists over the receipt and disbursement functions of the Sheriff's office because the bookkeeper prepares the daily checkout sheet and daily deposit and reconciles the bank account. She is also responsible for the preparation of monthly reports and issuance of monthly tax distribution checks to each taxing district.

To adequately protect employees in the normal course of performing their duties, and/or prevent inaccurate financial reporting or misappropriation of assets, we recommend the Sheriff separate the duties involving the deposit of cash, disbursement of cash, preparation of monthly reports, and reconciliation of the bank statement among the three office deputy clerks. Additionally, the Sheriff should also provide oversight, including initialing source documents as evidence of his review.

Sheriff's Response: Approach the subject, with segregation being a priority to separation of tasks for the deputies in reference to deposits, bank reconciliations, etc.

